

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 AGR-01 SP-02 ICA-20 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 PA-02 H-02 L-03 HA-05 IO-14
DODE-00 PM-05 /137 W

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TO SECSTATE WASHDC PRIORITY 770

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TAGS: EFIN PE

SUBJ: MINISTER OF FINANCE DEFENDS ECONOMIC PROGRAM: REITERATES
GOP PLEDGE ON NEW ARMS PURCHASES

REF: LIMA

1. SUMMARY: FINANCE MINISTER SILVA RUETE DEFENDED GOP ECONOMIC POLICIES UNDER QUESTIONING BY CIVILIAN POLITICAL LEADERS ON POPULAR TV PROGRAM EVENING OF JULY 2. SILVA REITERATED GOP PLEDGE NOT TO PURCHASE NEW ARMS ABROAD, ASSURED LISTENERS THAT MILITARY IS INCLUDED IN AUSTERITY PROGRAM (THOUGH MILITARY ITSELF MUST DECIDE WHERE TO CUT), AND SAID THAT MANY ITEMS ARE NOW UNDER SERIOUS STUDY, INCLUDING INTEREST RATE STRUCTURE, AND BUDGET REVIEW WHICH JUST MIGHT ALLOW SOME SALARY INCREASES FOR TEACHERS. SILVA STATED DOLLARS WERE BEING MADE AVAILABLE TO COVER PRIVATE SECTOR ARREARAGES. HE SAID THAT PERUVIANS SHOULD NOT EXPECT "MIRACLES" BUT NEITHER WOULD RULES OF THE GAME BE CONSTANTLY CHANGED AS GOP MOVED DELIBERATELY TO STABILIZE ECONOMY. HE STRESSED DESIRABILITY OF MIXED ECONOMY WITH PUBLIC AND PRIVATE SECTOR WORKING TOGETHER IN HARMONY. SILVA'S APPEARANCE MARKED FIRST TIME IN TEN YEARS THAT A MINISTER OF STATE HAS BEEN PUBLICLY QUIZZED BY CIVILIAN POLITICAL LEADERS. REACTION TO PROGRAM APPEARS UNCLASSIFIED

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FAVORABLE. END SUMMARY.

2. MINISTER OF ECONOMY AND FINANCE JAVIER SILVA RUETE APPEARED LIVE ON THE POPULAR TV PROGRAM "CONTACTO DIRECTO" EVENING OF JULY 2 TO FACE REPRESENTATIVES OF FOUR POLITICAL PARTIES (APRA, ACCION POPULAR, MDP, AND UDP) WHO QUESTIONED HIM CLOSELY ABOUT THE STATE OF THE PERUVIAN ECONOMY AND THE GOP'S ECONOMIC POLICY.

DURING THE COURSE OF THE PROGRAM THE FOLLOWING POINTS EMERGED:

A. IN RESPONSE TO PRODDING BY THE UDP REPRESENTATIVE CARLOS MALPICA ON MILITARY EXPENDITURE, SILVA ON TWO OCCASIONS REITERATED THE MILITARY GOVERNMENT'S PLEDGE NOT TO UNDERTAKE ANY NEW ARMS PURCHASES DURING ITS TIME IN OFFICE;

B. HE STRESSED THAT THE MILITARY WAS A FULL PARTNER IN THE AUSTERITY PROGRAM, ADDING THAT THE MILITARY LEADERSHIP MUST ITSELF DECIDE EXACTLY WHERE ITS BUDGET WILL BE CUT AND REPORT ITS FINDINGS TO THE INTER-MINISTERIAL ECONOMIC COMMISSION WHICH HE HEADS;

C. SILVA SAID THAT THE PRESENT INTEREST RATE STRUCTURE WAS UNDER SERIOUS STUEY, INDICATING THAT HUGE SUMS ARE NOW OUTSIDE THE BANKING SYSTEM AND BEING LENT AT USURIOUS RATES WHILE THE BANKING SYSTEM ITSELF IS "ANEMIC"--THIS SITUATION SUGGESTS TO HIM THAT INTEREST RATES SHOULD BE RAISED, EVEN THOUGH THERE WOULD BE A SMALL, INITIAL INFLATIONARY IMPACT; HE REFUSED TO BE PINNED DOWN ON THE AMOUNT RATES SHOULD BE RAISED.

D. IN ANSWER TO A SHOW OF CONCERN ABOUT THE PLIGHT OF PERU'S TEACHERS, WHO IN THE VIEW OF APRA AND MOST OTHER POLITICAL PARTIES ARE UNDERPAID, SILVA ANNOUNCED THAT THE GOP WAS CONDUCTING A THOROUGH BUDGETARY REVIEW, AND, SINCE IT, TOO, WAS SYMPATHETIC TO THE TEACHERS' SITUATION, IT WAS POSSIBLE THAT SOME UPWARD ADJUSTMENT IN THEIR SALARIES COULD BE MADE--SILVA STRESSED THAT HE UNCLASSIFIED

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COULD PROMISE NOTHING UNTIL THE BUDGET REVIEW IS COMPLETE; WHICH WOULD BE IN A FEW WEEKS' TIME.

E. SILVA ANNOUNCED THAT THE CENTRAL BANK WAS MAKING DOLLARS AVAILABLE TO COVER PRIVATE SECTOR IMPORTS (I.E. ARREARAGES) AND THAT THE SITUATION WOULD BE STABILIZED BY YEAR'S END;

F. FINALLY, HE CAUTIONED PERUVIANS NOT TO EXPECT "MIRACLES", BUT DID PROMISE THAT THE GOP WOULD MOVE DELIBERATELY TO STABILIZE ECONOMY SO AS TO PERMIT FUTURE ECONOMIC GROWTH. HE DENIED THAT HE WAS A "STATIST", BUT RATHER STRESSED THE BENEFITS OF A MIXED ECONOMY IN WHICH ALL ELEMENTS WORK HARMONIOUSLY TOGETHER TO ACHIEVE ITS COMMON GOALS.

3. COMMENT: AS FAR AS WE HAVE BEEN ABLE TO DETERMINE, LAST NIGHT'S PERFORMANCE WAS THE FIRST TIME IN TEN YEARS THAT A CABINET MINISTER HAS BEEN SUBJECTED TO "INTERPELACION" BY CIVILIAN POLITICAL LEADERS AND SILVA HANDLED THE TASK WELL. PUBLIC REACTION TO THE PROGRAM APPEARS TO HAVE BEEN FAVORABLE.
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